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Dominion Resources Inc.

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Dominion Resources Inc.

Major Rating Factors

Corporate Credit Rating

A-/Stable/A-2

Strengths:

- Subsidiary VEPCO is vertically integrated and fully regulated.
- Decision to largely exit the exploration and production business removed considerable business risk from the organization and shows a commitment to credit quality.
- Future spending is concentrated on the lower-risk utility side of the enterprise.
- Good access to capital and bank markets.

Weaknesses:

- Virginia Power has sizable nonutility generator obligations, the above-market portion of which may be unrecoverable beyond 2010.
- The higher-risk, unregulated generation portfolio could garner more management attention in the reconfigured company.

Rationale

The ratings on diversified energy company Dominion Resources Inc. reflect the cash flow stability and supportive regulatory environment for its utilities, combined with much smaller oil and gas exploration and production operations and a portfolio of unregulated power generation and natural gas-related assets. Dominion faces some commodity price risk in its unregulated operations that requires the careful attention of management. The company's business risk profile is excellent, albeit in the low end of the range, and it carries an aggressive level of financial risk. The outlook is stable.

Richmond, Va.-based Dominion and utility subsidiary Virginia Electric & Power Co. (VEPCO) have about $13 billion of debt outstanding.

Dominion's sale earlier this year of a sizable portion of its oil and gas exploration and production assets, the re-regulation of VEPCO's Virginia-domiciled business, and the company's plans to invest predominantly in its regulated segments in the future all point to an improved and improving business risk position. The company used large asset sale proceeds received in 2007 to balance the enterprise's financial strength, and incremental gains in credit metrics will help the company maintain a credit profile that supports the new ratings.

VEPCO and other regulated activities constitute more than one-half of the consolidated business profile, and with the move to re-regulate in Virginia, the utility operations have an attractive risk profile relative to integrated electric utility peers.

Dominion is a utility holding company with three primary subsidiaries: VEPCO, Dominion Energy Inc. (DEI), and Dominion Transmission Inc. VEPCO is an integrated, regulated electric utility serving 2.4 million customers in Virginia and northeastern North Carolina. The former Consolidated Natural Gas Co. subsidiary, now subsumed into Dominion, is a local natural gas distributor serving 1.7 million customers in Pennsylvania, Ohio, and West

Virginia. DEI is an independent power producer with 8,700 MW of merchant generation and a natural gas exploration and production operation in Appalachia with more than 1 trillion cubic feet equivalent of proved reserves. Competitive retail operations include 1.6 million electric and gas customers in 11 states. In addition, Dominion operates a substantial interstate natural gas pipeline system, large natural gas market-area storage facilities, and the largest liquefied natural gas (LNG) import and storage facility on the U.S. east coast.

We expect adjusted credit metrics to reside solidly in the "Aggressive" range for the utility indicative ratios published by Standard & Poor's. Leverage measures will continue to skirt the edge of that range, but overall financial strength at the reconstituted Dominion, including ample liquidity to support normal cash needs and the large capital spending program, is considered to be sufficient to support the new ratings. Management's commitment to maintaining financial health at levels appropriate for the rating, as well its stated plans to focus mainly on regulated activities, is an important consideration when we assess Dominion's credit quality.

Short term credit factors

The short-term rating on Dominion is 'A-2'. Dominion has had negative free cash flow for several years and will continue to experience a shortfall in this era of aggressive capital expenditures. Liquidity demands, once high, have diminished in the wake of the exploration and production divestitures, and Standard & Poor's considers access to liquidity to be strong. Liquidity is maintained through a total of $5 billion of credit facilities. There are no rating triggers and the company is in compliance on its defined debt to capital covenant of 65%. At Sept. 30, 2007, Dominion had about $470 million of cash and almost $4.5 billion in unused committed bank facilities.

Outlook

Ratings stability rests on Dominion's new, utility-centric business strategy that we expect to combine favorable business-risk characteristics with greater ability to produce more stable earnings and cash flow than in the past. The regulatory regime in Virginia enacted in 2007 is very credit supportive. The remaining unregulated business ventures are relatively low risk, and many, such as the Cove Point LNG facility, actually enhance Dominion's credit quality. Higher ratings could proceed from a gradual improvement in financial performance if it is accompanied by little change in business risk. Lower ratings would be caused by any renewed emphasis on capital spending in high-risk ventures, or if future regulatory behavior in Virginia does not mirror the credit-friendly features of the re-regulation legislation.

Table 1

Dominion Resources Inc. -- Peer Comparison*

Industry sector: Diversified energy

	Dominion Resources Inc.	Duke Energy Corp.	Xcel Energy Inc.	Pacific Gas & Electric Co.
Rating as of Dec. 19, 2007	BBB/Positive/A-2	A-/Stable/-	BBB+/Stable/A-2	BBB+/Stable/A-2
	--Average of past three fiscal years--			
(Mil. $)				
Revenues	16,165.0	18,006.6	9,270.3	11,484.3
Net income from cont. oper.	1,287.0	1,958.0	531.5	1,967.0
Funds from operations (FFO)	3,574.0	3,805.2	1,367.8	1,798.0
Capital expenditures	1,912.4	2,804.4	1,379.1	2,051.6
Cash and investments	224.3	1,799.9	46.5	1,425.7

Table 1

Dominion Resources Inc. -- Peer Comparison*(cont.)				
Debt	18,502.2	19,186.2	8,934.3	9,948.0
Preferred stock	1,589.0	44.7	87.5	270.0
Equity	12,548.2	20,217.1	5,238.9	7,462.8
Debt and equity	31,050.4	39,403.3	14,173.3	17,410.8
Adjusted ratios				
EBIT interest coverage (x)	2.8	3.2	2.2	3.3
FFO int. cov. (X)	4.1	3.9	3.2	3.2
FFO/debt (%)	19.3	19.8	15.3	18.1
Discretionary cash flow/debt (%)	3.1	(1.7)	(5.5)	(3.8)
Net cash flow/capex (%)	132.9	90.7	74.5	71.0
Debt/total capital (%)	59.6	48.7	63.0	57.1
Return on common equity (%)	10.3	10.7	8.9	25.3
Common dividend payout ratio (un-adj.) (%)	71.5	64.4	64.0	15.5

*Fully adjusted (including postretirement obligations). N.M.–Not meaningful.

Table 2

Dominion Resources Inc. -- Financial Summary*					
Org type: Energy					
	--Fiscal year ended Dec. 31--				
	2006	**2005**	**2004**	**2003**	**2002**
Rating history	BBB/Positive/A-2	BBB/Stable/A-2	BBB+/Negative/A-2	BBB+/Negative/A-2	BBB+/Stable/A-2
(Mil. $)					
Revenues	16,482.0	18,041.0	13,972.0	12,078.0	10,218.0
Net income from continuing operations	1,563.0	1,034.0	1,264.0	964.0	1,362.0
Funds from operations (FFO)	3,839.7	3,278.0	3,604.2	3,551.1	3,603.5
Capital expenditures	2,068.4	1,846.5	1,822.4	2,162.7	2,828.0
Cash and investments	138.0	146.0	389.0	126.0	291.0
Debt	20,427.6	18,850.4	17,484.5	18,430.5	17,204.1
Preferred stock	1,408.0	1,673.0	1,686.0	1,697.1	1,654.0
Equity	14,344.0	11,073.5	12,227.3	11,697.2	11,459.8
Debt and equity	34,771.6	29,923.8	29,711.8	30,127.7	28,663.9
Adjusted ratios					
EBIT interest coverage (x)	3.0	2.5	2.9	2.3	2.7
FFO int. cov. (x)	3.9	4.1	4.5	4.4	4.5
FFO/debt (%)	18.8	17.4	20.6	19.3	20.9
Discretionary cash flow/debt (%)	4.0	1.8	3.0	0.6	(5.6)
Net cash flow/capex (%)	132.7	121.8	144.4	126.1	101.9
Debt/debt and equity (%)	58.7	63.0	58.8	61.2	60.0
Return on common equity (%)	12.0	8.3	10.5	8.0	13.1
Common dividend payout ratio (un-adj.) (%)	61.7	90.7	68.1	85.6	53.1

*Fully adjusted (including postretirement obligations).

Table 3

Reconciliation Of Dominion Resources Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

--Fiscal year ended Dec. 31, 2006--

Dominion Resources Inc. reported amounts

	Debt	Shareholders' equity	Operating income (before D&A)	Operating income (before D&A)	Operating income (after D&A)	Interest expense	Cash flow from operations
Reported	19,601.0	13,170.0	4,951.0	4,951.0	3,345.0	1,014.0	4,005.0
Standard & Poor's adjustments							
Operating leases	850.8	--	170.5	48.8	48.8	48.8	121.7
Equity-like hybrids	(1,151.0)	1,151.0	--	--	--	(124.0)	124.0
Postretirement benefit obligations	--	--	--	--	--	--	12.4
Additional items included in debt	(146.0)	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	134.0	(134.0)
Nonrecourse debt	(385.0)	--	--	--	--	--	--
Power purchase agreements	402.0	--	24.3	24.3	24.3	24.3	--
Asset retirement obligations	1,255.8	--	109.0	109.0	109.0	109.0	(62.4)
Reclassification of nonoperating income (expenses)	--	--	--	--	158.0	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--
Minority interests	--	23.0	--	--	--	--	--
U.S. decommissioning fund contributions	--	--	--	--	--	--	(86.0)
Other	--	--	--	--	--	28.0	--
Total adjustments	826.6	1,174.0	303.8	182.0	340.0	220.0	(24.3)

Standard & Poor's adjusted amounts

	Debt	Equity	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations
Adjusted	20,427.6	14,344.0	5,254.8	5,133.0	3,685.0	1,234.0	3,980.7

*Dominion Resources Inc. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Table 4

South Region - Electric Residential Customer Satisfaction

	2006 Index	2005 Index	Diff.	2006 Rank
AEP-South	679	710	(31)	8
CPS Energy	711	724	(13)	4
Dominion Resources/VEPCO	681	713	(32)	7
Duke Energy-South	716	753	(37)	3

Table 4

South Region - Electric Residential Customer Satisfaction(cont.)

Entergy	654	707	(53)	12
Florida Power and Light	663	721	(58)	10
Oklahoma Gas and Electric	697	747	(50)	6
PNM Resources	656	693	(37)	11
Progress Energy	717	734	(17)	2
Reliant Energy	626	675	(49)	14
South Carolina Electric & Gas	671	695	(24)	9
Southern Company	723	746	(23)	1
Tampa Electric	705	688	17	5
TXU Energy	629	700	(71)	13
South Region average	679	720	(41)	
Industry average	668	704	(36)	

Table 5

SERC Region Cost and Rates 2005 Peer Analysis

Virginia Electric & Power Co. Cost
And Rates 2005 Peer Analysis

($/megawatt-hour)

Company name	Fuel	Var. O&M costs	Total var. costs	Fixed costs	Total generation costs	Var. purchased power costs	Fixed purchased power costs
Alabama Power Co.	18.49	1.59	20.08	18.31	38.39	33.35	33.35
Alcoa Power Generating Inc.	13.04	0.82	13.86	11.67	25.53	9.44	9.44
Carolina Power & Light Co.	20.76	1.83	22.59	24.39	46.98	37.75	37.75
Central Illinois Light Co.	33.57	6.87	40.44	132.33	172.77	17.76	17.76
Central Illinois Public Services Co.	N/A	N/A	N/A	N/A	N/A	16.99	16.99
Duke Power Co.	12.88	1.48	14.36	25.99	40.35	16.5	16.5
Electric Energy Inc.	11.18	0.65	11.83	7.46	19.29	20.98	20.98
Entergy Arkansas Inc.	10.32	1.71	12.03	24.33	36.36	35.3	35.3
Entergy Gulf States Inc.	46.16	1.63	47.79	31.06	78.85	31.86	31.86
Entergy Louisiana Inc.	55.18	1.71	56.89	30.58	87.47	30.29	30.29
Entergy Mississippi Inc.	51.08	1.46	52.54	24.18	76.72	34	34
Entergy New Orleans Inc.	87.2	1.18	88.38	25.74	114.12	25.86	25.86
Entergy Power Inc.	15.34	0.83	16.17	34.53	50.7	57.92	57.92
Georgia Power Co.	22.54	1.33	23.87	20.72	44.59	34.86	34.86
Illinois Power Co.	N/A	N/A	N/A	N/A	N/A	20.22	20.22
Kentucky Utilities Co.	22.03	0.88	22.91	19.1	42.01	12.55	12.55
Lockhart Power Co.	N/A	1.53	1.53	35.35	36.88	21.73	21.73
Louisville Gas & Electric Co.	16.28	0.96	17.24	21.22	38.46	15.88	15.88
Mississippi Power Co.	28.07	1.88	29.95	21.49	51.44	28.92	28.92
Mount Carmel Public Utility Co.	N/A	N/A	N/A	N/A	N/A	18.17	18.17
Savannah Electric & Power Co.	40.9	2.76	43.66	32.59	76.25	29.37	29.37
South Carolina Electric & Gas Co.	23.09	1.59	24.68	38.01	62.69	17.31	17.31
South Carolina Generating Co. Inc.	23.3	0.29	23.59	10.95	34.54	N/A	N/A

Table 5

SERC Region Cost and Rates 2005 Peer Analysis(cont.)							
Southern Electric Generating Co.	16.11	1.86	17.97	13.88	31.85	N/A	N/A
System Energy Resources Inc.	4.15	2.03	6.18	52.34	58.52	N/A	N/A
Union Electric Co.	9.93	1.2	11.13	22.65	33.78	26.44	26.44
Virginia Electric & Power Co.	20.49	1.37	21.86	23.47	45.33	38.9	38.9
SERC average	26.18	1.64	26.73	29.26	55.99	26.35	26.35
S&P average	26.74	3.22	28.53	71.82	99.61	30.34	30.34

N/A--Not applicable or available.

Ratings Detail (As Of December 28, 2007)*	
Dominion Resources Inc.	
Corporate Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Junior Subordinated	
Local Currency	BBB
Preferred Stock	
Local Currency	BBB
Senior Unsecured	
Local Currency	A-
Subordinated	
Local Currency	BBB+
Corporate Credit Ratings History	
27-Dec-2007	A-/Stable/A-2
02-Nov-2006	BBB/Positive/A-2
19-Dec-2005	BBB/Stable/A-2
21-Nov-2003	BBB+/Negative/A-2
Financial Risk Profile	Aggressive
Related Entities	
Virginia Electric & Power Co.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock	
Local Currency	BBB
Senior Secured	
Local Currency	A
Senior Unsecured	
Local Currency	A-

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Moody's Investors Service

Global Credit Research
Credit Opinion
26 APR 2007

Credit Opinion: Dominion Resources Inc.

Dominion Resources Inc.

Richmond, Virginia, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured	Baa2
Jr Subordinate	Baa3
Preferred Shelf	(P)Ba1
Commercial Paper	P-2
Consolidated Natural Gas Company	
Outlook	Stable
Issuer Rating	Baa1
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Jr Subordinate	Baa2
Preferred Shelf	(P)Baa3
Commercial Paper	P-2

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Key Indicators

Dominion Resources Inc.

	2006	2005	2004	2003
(CFO Pre-W/C + Interest) / Interest Expense [1]	4.2	4.0	4.4	4.1
(CFO Pre-W/C) / Debt [1]	19%	16%	18%	17%
(CFO Pre-W/C - Dividends) / Debt [1]	15%	11%	14%	12%
(CFO Pre-W/C - Dividends) / Capex [1]	74%	62%	88%	66%
Debt / Book Capitalization	52%	56%	52%	54%
EBITA Margin %	21%	14%	20%	20%

[1] CFO pre-W/C, which is also referred to as FFO in the Global Regulated Electric Utilities Rating Methodology, is equal to net cash flow from operations less net changes in working capital items

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Company Profile

Dominion Resources, Inc. (Dominion, Baa2 senior unsecured / stable outlook) is an energy holding company that owns a large vertically integrated electric company, regulated natural gas pipelines, natural gas storage and local gas distribution operations. In addition, Dominion owns non-regulated oil and gas exploration and production activities and merchant generation assets. Dominion reported 2006 revenues of $16.5 billion and is headquartered in Richmond, Virginia.

Rating Rationale

Dominion's Baa2 senior unsecured rating reflects the combination of the company's regulated business contributions in relation to its total consolidated results, its overall financial profile and our assessment of its business and operating risks. Dominion is one of the largest companies in our utility / power sector, serving approximately 4.0 million customers with electric and gas service and owns or manages approximately 24 GW's of generation, and enjoys some reasonable revenue diversity from its five major business units (electric, pipes and storage, gas distribution, merchant generation and E&P).

The key ratings drives include:

1. Pending sale of the E&P reserves. The most important near-term ratings driver for Dominion is its pending sale of its non-Appalachia oil and gas reserves and the application of the net, after-tax proceeds. Moody's observes that on a pro-forma basis, the sale of these reserves will significantly shift the mix of Dominion's regulated and un-regulated business activities, from roughly 40% regulated currently to roughly 60% post divestiture, which are derived from Dominion's consolidated mix of revenues, earnings, cash flows and assets. Post the divestiture, Dominion's over-all business and operating risk profile will decline, as Moody's considers E&P operations as a higher risk activity. Moody's is incorporating a view that the net, after-tax proceeds (including the costs of any hedge position adjustments) will be used to de-capitalize the company in an appropriate mix of debt and equity. Moody's acknowledges the company's publicly stated intentions to maintain investment grade credit metrics as a result of the application of the proceeds to the capital structure.

2. Virginia re-regulation. Moody's considers the recent legislation in Virginia that essentially re-regulates the electric operations at Virginia Electric and Power Company (VEPCO, Baa1 senior unsecured / stable outlook) as a modest positive. Moody's has always considered the regulatory and political environments in Virginia as being reasonably constructive and supportive to credit, so the re-regulation is viewed as incrementally beneficial to the overall credit of both the utility as well as the parent company. Moody's does not incorporate any significant near-term benefits associated with the re-regulation, given VEPCO's current rate freeze, where rates would not be meaningfully impacted for at least 2 years. We remain mildly concerned with the deferred fuel cost balances and observe that VEPCO will not be earning any interest on any deferred balances.

3. Financial metrics. Dominion's key financial credit metrics will be a significant driver for future ratings. Over the past several years, Dominion's metrics have been weak for its rating category given its business and operating risks, and the expected improvements that Moody's had been incorporating into our ratings and rating outlook failed to materialize. While these financial disappointments were relatively easy to identify and could be explained as non-recurring, the fact of the matter is that they have occurred, in some fashion, every year since 2003. Dominion's key financial metrics position the company firmly within the Baa rating category, as specified in our Rating Methodology, and are viewed as reasonable when compared to comparable Baa2-rated utility credits. Over the past 4-years, Dominion averaged a ratio of funds from operations to adjusted total debt of approximately 18% versus its peer group of 20% and retained cash flow of 13% versus its peer group average of 14%. Dominion's Baa2 peers include Allete, Ameren, AEP, DTE, Edison International, Exelon, Great Plains, PPL, Progress and Public Service Enterprise Group.

4. Free Cash Flow. Over the past few years, Dominion has steadily increased its shareholder dividend obligations (from approximately $725 million in 2002 to $970 million in 2006) and has increased its capital expenditures (from approximately $2.8 billion in 2002 to $$4.0 billion in 2006). As a result, the company has been producing sizeable negative free cash flow balances, averaging $1.3 billion, over the past five years. Moody's observes that Dominion's total adjusted debt has increased approximately $3.5 billion over this same period, from approximately $17 billion in 2002 to approximately $20.5 billion in 2006. Moody's observes that Dominion's 4-year average RCF / Capital Expenditure ratio of approximately 73% is noticeably lower than its peer group average of 117%.

Rating Outlook

Dominion's stable rating outlook reflects our expectations that the company will be successful with its E&P divestiture and that the net, after-tax proceeds will be used to reduce a sufficient amount of debt and maintain investment grade ratings. As noted in previous publications, Moody's incorporates a view that the E&P divestiture program might result in multiple sales, as opposed to a single transaction, and that a portion of the proceeds will need to be used to address the unwinding of the hedged production that is currently in place (in addition to any tax-leakage). The stable rating outllok incorporates a view that Dominion will produce, on average, ratio's of cash flow to adjusted total debt in the high-teen's and retained cash flow to adjusted total debt in the mid-teen's on a sustainable basis.

What Could Change the Rating - Up

Ratings could be upgraded if Dominion was successful in producing more robust key financial credit ratio's, on a sustainable basis, given its overall business and operating risks (adjusted to incorporate the expected sale of the E&P reserves). These metrics would include a ratio of funds from operations to adjusted total debt in the low-20% range and retained cash flow to adjusted total debt in the high-teen's. At these levels, Dominion's key financial metrics would position the company for an upgrade based on our Rating Methodology guidelines and would position the company favorably against a peer group of comparably rated Baa1 utility companies.

What Could Change the Rating - Down

Ratings could be downgraded if Dominion's financial ratios where its ratio's of cash flow to adjusted total debt to the low-teen's range on a sustainable basis.